Befimmo (EUR 62.01 - Reduce): Good results but what about the portfolio value? [19 November 2008]

Yesterday after close Befimmo published its 2008 FY results. Direct result per share decreased to EUR 4.55 (vs EUR 4.78) but increases its dividend to EUR 4.55 (vs EUR 4.51. The NAV remained stable at EUR 74.03 per share.

Facts

• Due to the full impact of Fedimmo, indexation and a higher occupancy rate, the total rental income increased to EUR 109.5m compared to EUR 104.9m last year. We expected EUR 109.9m. Operating costs increased slightly more than we expected (EUR 18.1m) to EUR 20.0m (vs. EUR 12.7m last year). Overhead costs increased inline with our expectations to EUR 10.6m (vs. EUR 8.9m last year). As expected interest costs saw a significant increase to EUR 40.3m (vs. EUR 34.8m last year), we expected EUR 40.2m. However, interest income increased from EUR 6.7m last year to EUR 19.5m at 30/09/08, which includes EUR 5.1m positive revaluation of derivatives. Excluding this non-cash item, this was still significantly above our estimate (EUR 9.7m). As a result the direct result increased to EUR 59.4m compared to EUR 51.7m last year, whilst we expected EUR 56.3m. However, due to the increased share capital the direct result per share decreased from EUR 4.78 last year to EUR 4.55;

• At 30/09/08, the portfolio value amounted to EUR 1.886m compared to EUR 1.812m last year. The overall portfolio yield further decreased to 6.26% (vs. 6.4% last year and 6.38% at H1 '08). This was mainly due to the Fortis acquisition (5.22% yield) and the sale of the semi-industrial portfolio at approx. 7%. The yield of the Fedimmo portfolio remained stable at 5.5%. Nonetheless, the portfolio reported a slight negative revaluation of EUR 6.3m, which was positively off set by the EUR 8.8m of capital gains on disposals. As a result the indirect result amounted to EUR 2.5m, compared to our EUR -15.4m, as we expected EUR 23.2m negative revaluation of the portfolio in the last quarter;

• Total interest bearing debt increased by 7.5% to EUR 872.4m (EUR 811.3m last year) and the loan to value at 30/09/08 amounted to 46.9%. Due to this year's refinancing program, long term interest bearing debt amounted to 98% of total interest bearing debt compared to 18% last year. As a result the average interest bearing debt increased from 4.09% at 30/09/07 to 4.78% at 30/09/08, 93% of interest bearing is hedged and the average maturity of debt amounts to 3.7 years.
The company said it currently has EUR 250m credit lines available for their future obligations, although at higher margins;

• Even though, the direct result per share slightly decreased from EUR 4.78 to EUR 4.55, the company increased its dividend per share to EUR 4.55 compared to its EUR 4.51 guidance (EUR 4.51 last year);

• For 2009 the company expects the direct result per share to further decrease to EUR 4.43 due to refurbishments, ie higher vacancy. However, the company expects to be able to increase the dividend per share to EUR 4.60 due to capital gains on this year divestments.

Our View

• The direct result was better than we expected due to higher than expected interest income, which positively off set the increased interest costs. As the company expects interest rates to decrease next year this should also have a negative impact on the interest income. The company expects the average Euribor 1 and 3 months interest rate to decrease to 3.93% in 2009 and 2.86% in 2010. As the margins on the remaining credit lines are supposedly higher, we believe this could further increase the financing costs for its future obligations. Furthermore, the company's EUR 200m IRS callable at 3.73% has a call option in March 2009, which could decrease the hedge ratio from 93% to 62%. Additionally, the company has to re-finance EUR 100m in 2009. Therefore, we expect the financial result to decrease compared to this year, which will lead to a lower direct result.

• If the company would use its remaining credit lines to finance its pipeline, the leverage will increase to approx. 55%, according to the company. The company said this will not lead to any breach of covenants. Its covenant limits are 65% loan-tovalue and an interest rate cover ratio of at least 2.25. Even though, we believe the portfolio is still slightly over-valued and expected to see some negative revaluation of the Fedimmo portfolio, we do not expect them to breach the loan to value covenant any time soon.

Conclusion

All in all, the direct result per share slightly decreased compared to last but was better than we expected and the company increased its dividend to EUR 4.55 per share compared to their EUR 4.51 last year. Due to refurbishments, the company expects the direct result per share to be lower next year as well but will be able to further increase its dividend to EUR 4.60 per share as a result of this year's capital gains. Due to higher margins on the remaining credit lines and EUR 100m re-financing next year we expect the financing costs to further increase, which in combination with the increased vacancy will decrease the direct result per share. We saw no significant negative re-financing and the overall portfolio yield further decreased to 6.26%, whilst the Fedimmo portfolio yield remained stable at 5.5%. Therefore, we still expect negative revaluation next year as the Brussels office market slowly further deteriorates. At the current share price we continue to see more upside elsewhere and we therefore reiterate our Reduce recommendation, target price EUR 67.50.

Details

in EUR	2007 FYa	2008 FYa	% Ch	2008 FYe	% diff. e/a
Revenues	104.9	109.5	4%	109.9	0%
EBITA (m)	88.1	91.4	4%	93.0	2%
Direct result (m)	51.7	59.4	13%	56.3	-5%
Direct result per share	4.78	4.55	-5%	4.31	-5%
Indirect result (m)	37.4	2.5	-93%	-15.4	
NAV per share	71.36	74.03	4%	73.32	-1%

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